



MISSOURI DEPARTMENT OF TRANSPORTATION

YEAR ENDED JUNE 30, 1998

**From The Office Of State Auditor
Claire McCaskill**

Report No. 99-114
December 1, 1999

AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

November 1999

IMPORTANT NOTE: The following audit of the Missouri Department of Transportation is based upon fieldwork started in 1998 and due to statutory changes is the last of its kind.

As a result of legislative changes, the department is now contracting for annual financial audits. In accordance with those changes, the state auditor maintains the authority to review those external audits. The auditor's office will now focus on critical performance and financial issues relating to the department and Missouri transportation. We have already discussed with the department our plans to look at maintenance per mile comparisons, the current 5-Year Plan, and use of highway funds for purposes other than construction. The result of that audit work will be released next year.

The following problems were discovered during an audit of the Missouri Department of Transportation (MoDOT) for the year ended June 30, 1998:

Our audit found problems concerning the department's documentation of state aircraft use, however our recommendations were already implemented prior to the issuance of this audit. The department now handles its flight operations through the Office of Administration. MoDOT assures flight manifests now list all passengers on board, and cost comparisons will be conducted when using aircraft for out-of-state flights.

Individuals or entities that damage MoDOT property (primarily because of vehicular accidents) are responsible for paying the costs of repairing the damage. The audit disclosed that the department has not made a sufficient effort to ensure the responsible parties are identified and it appears a significant amount of potentially billable revenues have been written off as unknown and uncollectible.

During fiscal year 1998, over 2,000 property damage accounts were set up, with approximately 1,200 of these accounts representing instances where the responsible parties were unknown. The majority of these unknown damage accounts related to accidents in the Kansas City and St. Louis areas. During a review of forty unknown damage accounts, the auditors were able to match sixteen (40 percent) of these accounts to accident reports (prepared by the Highway Patrol or a local law enforcement agency) identifying a responsible party.

During the period from January 1995 through March 1999, the department wrote off approximately \$3 million in unknown property damage accounts. If the department had

(over)

YELLOW SHEET

been able to identify the responsible parties for 40 percent (our error rate) of this amount, the department could have billed an additional \$1.2 million related to these accounts. Had this amount been billed, it is likely much of it would have been collected. MoDOT should ensure property damage revenue is maximized by identifying and billing the responsible parties on a timely basis. The department should also consider reviewing accounts written off in recent years to determine if the responsible parties can be identified and billed.

During fiscal years 1998 and 1999, MoDOT reduced the amount of federal bridge monies allocated to the various counties within the state and the city of St. Louis by more than \$1.1 million, the total amount of funding appropriated to the State Auditor's Office (SAO) from the State Highway Department Fund during those years. The audit found that MoDOT's rationale for these reductions was flawed and such reductions by the department were not justified. The local governments affected include some entities (including the city of St. Louis and first and second class counties) which receive no audit services from the SAO.

The department reimburses various moving expenses related to the recruitment of top management employees as well as the transfer of existing employees to other locations within the state. During fiscal year 1998, these costs totaled almost \$600,000. As similarly noted in our prior report, some of these expenses appear unreasonable. MoDOT's policy exceeds the state Office of Administration's (OA) policy in a number of areas, including an additional amount to cover the increased tax liability related to amounts reimbursed. If MoDOT had limited the total reimbursement to 10 percent of an employee's annual salary, the department's moving expenses for fiscal year 1998 would have totaled about \$250,000, a savings of \$350,000.

From June 1995 to January 1999, the department paid about \$336,000 to a consultant or his designees for conducting workshops/training related to the reorganization of the Information Systems Division. The procurement of these consulting services was not handled properly. In addition, there was no written contract/agreement between MoDOT and the consultant identifying the scope of services to be provided and the compensation to be paid.

Other findings related to:

- Problems noted in the procurement of certain aggregate materials, gasoline, and diesel in District 9 (Willow Springs).
- The untimely updating of access to the department's computer system when an employee moved to a new position or terminates employment.

The department's responses to the State Auditor's findings are included in the report.

MISSOURI DEPARTMENT OF TRANSPORTATION

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FINANCIAL SECTION

State Auditor's Reports



CLAIRE C. McCASKILL
Missouri State Auditor

**INDEPENDENT AUDITOR'S REPORT ON
THE FINANCIAL STATEMENTS**

Honorable Mel Carnahan, Governor
and
Missouri Highway and Transportation Commission
and
Henry Hungerbeeler, Director
Missouri Department of Transportation
Jefferson City, Missouri 65102

We have audited the accompanying special-purpose financial statements of the various funds of the Missouri Department of Transportation as of and for the year ended June 30, 1998, as identified in the table of contents. These special-purpose financial statements are the responsibility of the department's management. Our responsibility is to express an opinion on these special-purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the special-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying special-purpose financial statements were prepared for the purpose of presenting the financial position, results of operations, and cash flows of the Self-Insurance Fund; the receipts, disbursements, other financing sources (uses), and changes in cash and investments of the General Revenue Fund-DOT Federal, the State Highway Department Fund, the State Road Fund, the State Transportation Fund, the Aviation Trust Fund, the State Transportation Assistance Revolving Fund, and the Local Fund; and the appropriations and expenditures of the various funds of the Missouri Department of Transportation. These special-purpose financial statements are not intended to be a complete presentation of the financial position and results of operations of the various funds of the department.

In our opinion, the special-purpose financial statements in Exhibits A through C present fairly, in all material respects, the financial position of the Self-Insurance Fund as of June 30, 1998, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In our opinion, the special-purpose financial statements in Exhibits D and E present fairly, in all material respects, the receipts, disbursements, other financing sources (uses), and changes in cash and investments of the General Revenue Fund-DOT Federal, the State Highway Department Fund, the State Road Fund, the State Transportation Fund, the Aviation Trust Fund, the State Transportation Assistance Revolving Fund, and the Local Fund; and the appropriations and expenditures of the various funds of the Missouri Department of Transportation as of and for the year ended June 30, 1998, in conformity with the comprehensive bases of accounting discussed in Note 1, which are bases of accounting other than generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we also have issued our report dated April 2, 1999, on our consideration of the department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

The year 2000 supplementary information on pages 29 and 30 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that the department is or will become year 2000 compliant, that the department's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the department does business are or will become year 2000 compliant.

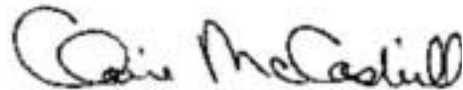
Our audit was made for the purpose of forming an opinion on the special-purpose financial statements, taken as a whole, that are referred to in the first paragraph. The accompanying financial information listed as supplementary data in the table of contents is presented for purposes of additional analysis. Such information has been subjected to the auditing procedures applied in the audit of the special-purpose financial statements and, in our opinion, except for the effects on Schedule 2 of the matter discussed in the following paragraph, is fairly stated in all material respects in relation to the special-purpose financial statements taken as a whole.

The information presented in Schedule 2 was provided by the state's accounting system. The department converts receipt and disbursement information from its system to the state's accounting system. Some department codes have not been appropriately converted, resulting in some expenditures being improperly classified on the state's accounting system. The amounts by which the information presented in Schedule 2 would change if the expenditures had been appropriately converted cannot reasonably be determined.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the department's management and was

not subjected to the auditing procedures applied in the audit of the special-purpose financial statements referred to above.

An integral part of the department's funding comes from federal awards. Those federal awards are reported on in the State of Missouri Single Audit Report issued by the State Auditor's office. The single audit is conducted in accordance with the provisions of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

A handwritten signature in dark ink, appearing to read "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" written in a larger, more prominent script than the last name "McCaskill".

Claire McCaskill
State Auditor

April 2, 1999 (fieldwork completion date)



CLAIRE C. McCASKILL
Missouri State Auditor

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Honorable Mel Carnahan, Governor
and
Missouri Highway and Transportation Commission
and
Henry Hungerbeeler, Director
Missouri Department of Transportation
Jefferson City, Missouri 65102

We have audited the special-purpose financial statements of the Missouri Department of Transportation as of and for the year ended June 30, 1998, and have issued our report thereon dated April 2, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the special-purpose financial statements of the Missouri Department of Transportation are free of material misstatement, we performed tests of the department's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no material instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted instances of other noncompliance which are presented in the accompanying Management Advisory Report.

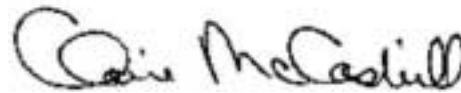
Internal Control Over Financial Reporting

In planning and performing our audit of the special-purpose financial statements of the Missouri Department of Transportation, we considered the department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the special-purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control

over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the special-purpose financial statements.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material to the special-purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses, and these matters are presented in the accompanying Management Advisory Report.

This report is intended for the information of the management of the Missouri Department of Transportation and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in dark ink, appearing to read "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" written in a larger, more prominent script than the last name "McCaskill".

Claire McCaskill
State Auditor

April 2, 1999 (fieldwork completion date)

Financial Statements

Exhibit A

MISSOURI DEPARTMENT OF TRANSPORTATION
BALANCE SHEET - SELF-INSURANCE FUND
JUNE 30, 1998

ASSETS

Cash and cash equivalents (Note 2)	\$ 286,247
Investments, at fair value (Note 2)	23,259,095
Accrued interest receivable	332,711
Total Assets	<u>\$ 23,878,053</u>

LIABILITIES AND FUND EQUITY

Liabilities:

Estimated claims payable	\$ 13,595,003
Estimated unreported claims	7,630,000
Administrative services payable	7,342
Total Liabilities (Note 3)	<u>21,232,345</u>

Fund equity:

Contributed capital	210,000
Retained earnings -	
Designated for:	
Highway workers' compensation	-137,907
Highway patrol workers' compensation	-165,466
Highway automobile liability	401,166
Highway general liability	2,337,915
Total Fund Equity	<u>2,645,708</u>
Total Liabilities and Fund Equity	<u>\$ 23,878,053</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Exhibit B

MISSOURI DEPARTMENT OF TRANSPORTATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
SELF-INSURANCE FUND
YEAR ENDED JUNE 30, 1998

OPERATING REVENUES

Insurance premiums:	
Highway workers' compensation	\$ 4,497,486
Highway patrol workers' compensation	816,696
Highway automobile liability	849,912
Highway general liability	995,009
Other	181,670
Total Operating Revenues	<u>7,340,773</u>

OPERATING EXPENSES

Program	398,338
Self-Insurance claims -	
Highway workers' compensation	5,217,629
Highway patrol workers' compensation	824,129
Highway automobile liability	747,318
Highway general liability	1,064,347
Estimated claims:	
Highway workers' compensation	1,288,481
Highway patrol workers' compensation	115,139
Highway automobile liability	-32,817
Highway general liability	906,364
Total Operating Expenses	<u>10,528,928</u>
Operating Revenues over (under)	
Operating Expenses	-3,188,155

NONOPERATING REVENUES

Investment income -	
Interest	1,354,880
Net increase in the fair value of investments	20
Total investment income	<u>1,354,900</u>

REVENUES OVER (UNDER) EXPENSES	-1,833,255
RETAINED EARNINGS, JULY 1	4,276,398
Cumulative effect of a change in	
accounting principle	-7,435
RETAINED EARNINGS, JULY 1, as restated	<u>4,268,963</u>
RETAINED EARNINGS, JUNE 30	<u>\$ 2,435,708</u>

Exhibit C

MISSOURI DEPARTMENT OF TRANSPORTATION
STATEMENT OF CASH FLOWS
SELF-INSURANCE FUND
YEAR ENDED JUNE 30, 1998

CASH FLOWS FROM OPERATING ACTIVITIES

Operating Revenues Over (Under)

Operating Expenses \$ -3,188,155

Adjustments to reconcile operating income to
net cash used in operating activities:

Change in assets and liabilities

Increase in accrued interest receivable -4,451

Increase in estimated claims payable 2,277,167

Increase in administrative services payable 7,342

Net Cash Used in Operating Activities -908,097

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sale of investments 14,733,000

Purchase of investments -15,792,814

Interest Income 1,354,880

Net Cash Provided by Investing Activities 295,066

NET DECREASE IN CASH AND CASH EQUIVALENTS -613,031

CASH AND CASH EQUIVALENTS, JULY 1 899,278

CASH AND CASH EQUIVALENTS, JUNE 30 \$ 286,247

The accompanying Notes to the Financial Statements are an integral part of this statement.

Exhibit D

MISSOURI DEPARTMENT OF TRANSPORTATION
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES),
AND CHANGES IN CASH AND INVESTMENTS
YEAR ENDED JUNE 30, 1998

	General Revenue Fund - DOT Federal	State Highway Department Fund	State Road Fund	State Transportation Fund	Aviation Trust Fund	State Transportation Assistance Revolving Fund	Local Fund	Total (Memorandum Only)
RECEIPTS								
Motor fuel tax	\$ 0	493,263,704	190,443,360	1,031,121	0	0	0	684,738,185
Aviation fuel tax	0	0	0	0	457,171	0	0	457,171
Other taxes	0	35,744,391	1,011	0	0	0	0	35,745,402
Licenses, permits, and fees	0	147,484,194	4,160,519	0	0	0	0	151,644,713
Sales	0	19,238	4,062,383	0	0	0	0	4,081,621
Leases and rentals	0	0	3,742,415	0	0	0	0	3,742,415
Federal receipts	30,122,127	283,933	413,582,460	0	0	22,500	0	444,011,020
Interest income	0	1,548,045	4,628,340	0	23,194	52,718	942,520	7,194,817
Local political subdivision escrow payments	0	0	0	0	0	0	12,605,913	12,605,913
Refunds	20,799	458,164	3,921,300	708	0	0	0	4,400,971
Loan proceeds (Note 4)	0	0	48,424,243	0	0	0	0	48,424,243
Miscellaneous receipts	824,002	11,493	11,266,674	0	0	0	0	12,102,169
Total Receipts	30,966,928	678,813,162	684,232,705	1,031,829	480,365	75,218	13,548,433	1,409,148,640
DISBURSEMENTS	30,915,607	91,740,359	1,013,545,849	8,409,565	372,527	0	7,472,641	1,152,456,548
RECEIPTS OVER (UNDER) DISBURSEMENTS BEFORE OTHER FINANCING SOURCES AND USES	51,321	587,072,803	-329,313,144	-7,377,736	107,838	75,218	6,075,792	256,692,092
OTHER FINANCING SOURCES (USES)								
Operating transfers:								
In	97,470	2,406,895	366,443,958	6,257,762	0	0	0	375,206,085
Out (Note 5)	0	-378,150,045	-9,729,184	-4	-26,331	0	-5,047,762	-392,953,326
Appropriations exercised by other agencies (Note 6)	0	-212,631,847	0	0	-12,776	0	0	-212,644,623
Total Other Financing Sources (Uses)	97,470	-588,374,997	356,714,774	6,257,758	-39,107	0	-5,047,762	-230,391,864
RECEIPTS AND OTHER SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER USES	148,791	-1,302,194	27,401,630	-1,119,978	68,731	75,218	1,028,030	26,300,228
CASH AND INVESTMENTS, JULY 1	236,924	7,357,079	72,188,172	1,880,385	351,216	0	16,936,976	98,950,752
CASH AND INVESTMENTS, JUNE 30 (NOTE 2)	385,715	6,054,885	99,589,802	760,407	419,947	75,218	17,965,006	125,250,980

The accompanying Notes to the Financial Statements are an integral part of this statement.

GENERAL REVENUE FUND - STATE

Rail Program - Promotional costs related to the St. Louis-Kansas City state-assisted Amtrak route	\$	150,000	145,271	4,729
Aviation Program - Construction, capital improvements, maintenance of publicly owned airfields by cities or other political subdivisions, including land acquisition, and for printing of charts and directories		817,171	706,459	110,712
Waterways Program - Grants for port authority capital improvements including rehabilitation of rail lines service port authorities		431,651	431,651	0
Transit Program - Operating subsidy for not-for-profit transporters of the elderly, people with disabilities, and low income individuals		2,943,732	2,794,424	149,308
Waterways Program - Grants to port authorities for assistance in port planning, acquisition or construction within the port districts		444,987	430,898	14,089
Mississippi River Parkway Commission - Expense and Equipment		32,500	22,565	9,935
Initial capitalization of the State Transportation Assistance Revolving Loan Fund (STAR) authorized by Section 226.191, RSMo with distributions to local and regional organizations for capital improvement projects		2,500,000	2,425,000	75,000
Rail Program - Station repairs and improvements at Missouri Amtrak stations		150,000	0	150,000
Aviation Program - Construction, capital improvements, maintenance of publicly owned airfields by cities or other political subdivisions, including land acquisition, and for printing of charts and directories		642,444	0	642,444
Planning and a study of the expansion of Vivion Road in Kansas City, Missouri		300,000	0	300,000
Transit Program - Grants under Section 5309, Title 49, United States Code for a feasibility study of computer rail transportation services, to be expended on an 80% federal, 10% state, and 10% local basis		62,500	0	62,500
Rail Program - State participation in joint state/federal Amtrak Rail Passenger Service Program		2,650,000	2,570,500	79,500
Multimodal Operations Program - Reimbursements to the State Highway and Transportation Department Fund for providing professional and technical services and administrative support of transportation activities		25,710	24,939	771
Multimodal Operations Administration - Personal Service		600,142	582,137	18,005
Multimodal Operations Administration - Expense and Equipment		46,396	45,004	1,392
Total General Revenue Fund - State		11,797,233	10,178,848	1,618,385

GENERAL REVENUE FUND - DOT FEDERAL

Transit Program - Grants to metropolitan areas under Section 5303, Title 49, United States Code		945,407	768,137	177,270
Transit Program - Grants under Section 5309, Title 49, United States Code to assist organizations providing public transportation services		5,000,000	4,762,225	237,775
Initial capitalization of the State Transportation Assistance Revolving Loan Fund (STAR) authorized by Section 226.191, RSMo with distributions to local and regional organizations for capital improvement projects		18,000,000	6,965,519	11,034,481
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Transit Program - Grants under Section 5309, Title 49, United States Code for a feasibility study of computer rail transportation services, to be expended on an 80% federal, 10% state, and 10% local basis		562,500	0	562,500
Transit Program - Grants to urban areas under Section 5307,				

Title 49, United States Code	2,209,077	1,700,045	509,032
Multimodal Operations Program - Reimbursements to the State Highway and Transportation Department Fund for providing professional and technical services and administrative support of transportation activities	65,000	65,000	0
Rail Program - Grants under Section 5 of the Department of Transportation Act as amended by the reauthorizing act, for acquisition, rehabilitation, improvement or rail facility construction assistance	612,500	350,378	262,122
Transit Program - Locally matched Capital Improvement Grants under Section 5310, Title 49, United States Code, as mended, to assist private, non-profit organizations in improving public transportation for the State's elderly and handicapped	1,367,527	1,305,090	62,437
Transit Program - Locally matched grants to small urban and rural areas under Section 5311, Title 49, United States Code	2,813,393	2,490,274	323,119
Multimodal Operations Administration - Personal Service	374,228	305,099	69,129
Multimodal Operations Administration - Expense and Equipment	650,000	165,441	484,559
Aviation Program - Construction, capital improvement or planning of publicly owned airfields by cities or other political subdivisions, including land acquisition, pursuant to the provisions of the State Block Grant Pilot Program, authorized by Section 116 of the Federal Airport and Airway Safety and Capacity Expansion Act of 1987	16,000,000	11,475,500	4,524,500
Total General Revenue Fund - DOT Federal	48,599,632	30,352,708	18,246,924
STATE ROAD FUND			
To pay the costs of reimbursing the counties and other political subdivisions for the acquisition of roads and bridges taken over by the state - Personal Service	193,950,923	191,296,776	2,654,147
To pay the costs of reimbursing the counties and other political subdivisions for the acquisition of roads and bridges taken over by the state - Expense and Equipment	126,800,000	126,764,212	35,788
To pay the costs of reimbursing the counties and other political subdivisions for the acquisition of roads and acquisition of roads and bridges taken over by the state - Construction and Maintenance	642,926,317	629,931,512	12,994,805
Transportation Enhancements Program of the Intermodal Surface Transportation Efficiency Act of 1991 - for the purpose of funding transportation enhancement activities	6,200,000	4,926,393	1,273,607
Multimodal Operations Administration - Personal Service	129,157	129,157	0
Multimodal Operations Administration - Expense and Equipment	15,000	8,782	6,218
Total State Road Fund	970,021,397	953,056,832	16,964,565
THIRD STATE BUILDING FUND			
Highway purposes	49,500	49,500	0
Non-highway purposes	49,500	49,500	0
Total Third State Building Fund	99,000	99,000	0
THIRD STATE BUILDING TRUST FUND			
Highway purposes	12,212	0	12,212
Non-highway purposes	1	0	1
South Riverfront Expressway in Jackson County	239,589	142,349	97,240
Construction of new traffic signals, turn lanes, lighting and associated work at the intersection of Route 291 and Route 150 in Jackson County	180,000	0	180,000
Design of the South Riverfront Expressway in Jackson County	54,592	0	54,592
Poplar Bluff Municipal Airport to extend runways and taxiways, acquire land and easements and associated improvements in Butler County	65,176	65,176	0

Poplar Bluff Municipal Airport to extend runways and taxiways, acquire land and easements and associated improvements in Butler County	24,699	24,699	0
Total Third State Building Trust Fund	576,269	232,224	344,045
STATE HIGHWAY DEPARTMENT FUND			
Division of Maintenance and Traffic - Design of the renovation of the existing headquarters offices or a new facility to house the headquarters offices	565,600	0	565,600
Design and renovation or construction and/or for the purchase of a new building for the District 4 Office in Kansas City	954,475	7,300	947,175
Design and renovation to District 5 Headquarters	1,061,421	1,032,668	28,753
Division of Maintenance and Traffic - Design of a new office and garage facility	400,000	43,200	356,800
Design, renovation, construction, and improvements to district offices - Lee's Summit	4,827,879	0	4,827,879
Design, renovation, construction, and improvements to district offices - Macon	2,818,264	70,022	2,748,242
Design, renovation, construction, and improvements to district offices - Sikeston/design	412,448	0	412,448
Design, renovation, construction, and improvements to district offices - Sikeston	4,765,759	0	4,765,759
Highway Employee Fringe Benefits - Personal Service	54,543,857	53,185,726	1,358,131
Highway Employee Fringe Benefits - Expense and Equipment	20,962,324	20,204,688	757,636
Highways and Transportation Commission and Highway Program Administration - Personal Service	19,303,407	14,616,473	4,686,934
Highways and Transportation Commission and Highway Program Administration - Expense and Equipment	1,700,227	1,506,578	193,649
Total State Highway Department Fund	112,315,661	90,666,655	21,649,006
STATE TRANSPORTATION FUND			
Multimodal Operations Program - Reimbursements to the State Highway and Transportation Department Fund for providing professional and technical services and administrative support of transportation activities	29,731	29,731	0
Transit Program - Distributing funds to urban, small urban and rural transportation systems in the same proportion as these systems have experienced reductions in federal funding	8,135,660	8,135,512	148
Rail Program - State participation in joint state/federal Amtrak Rail Passenger Service Program	950,000	950,000	0
Multimodal Operations Administration - Personal Service	40,060	19,994	20,066
::			
Rail Program - Station repairs and improvements at Missouri Amtrak stations	25,000	0	25,000
Total State Transportation Fund	9,180,451	9,135,237	45,214
AVIATION TRUST FUND			
Aviation Program - Construction, capital improvements, maintenance of publicly owned airfields by cities or other political subdivisions, including land acquisition, and for printing of charts and directories	650,000	352,199	297,801
Total Aviation Trust Fund	650,000	352,199	297,801
Total All Funds	\$ 1,153,239,643	1,094,073,703	59,165,940

The accompanying Notes to the Financial Statements are an integral part of this statement.

Notes to the Financial Statements

MISSOURI DEPARTMENT OF TRANSPORTATION
NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

A. Reporting Entity and Basis of Presentation

The accompanying special-purpose financial statements present only selected data for each fund of the Missouri Department of Transportation.

The Self-Insurance Fund, presented in Exhibits A through C, is a separate accounting entity, recording all assets, liabilities, equities, revenues, and expenses related to the fund's activities.

Expenses presented for the fund or any program may not reflect the total cost of the related activity. Other direct and indirect costs provided by the department and other state agencies are not allocated to the fund or applicable program.

Receipts, disbursements, other financing sources (uses), and changes in cash and investments are presented in Exhibit D for the General Revenue Fund-DOT Federal, the State Highway Department Fund, the State Road Fund, the State Transportation Fund, the Aviation Trust Fund, the State Transportation Assistance Revolving Fund, and the Local Fund. Appropriations from these funds, except for the Local Fund which is a nonappropriated fund, are expended by or for the department for restricted purposes.

The "Total (Memorandum Only)" column is presented as additional analytical data. Because this column does not identify the restrictions that exist by fund, it should be read only with reference to the details of each fund.

Appropriations, presented in Exhibit E, are not separate accounting entities. They do not record the assets, liabilities, and equities of the related funds but are used only to account for and control the department's expenditures from amounts appropriated by the General Assembly.

Expenditures presented for each appropriation may not reflect the total cost of the related activity. Other direct and indirect costs provided by the department and other state agencies are not allocated to the applicable fund or program.

B. Basis of Accounting

The financial statements for the Self-Insurance Fund, Exhibits A through C, are prepared in conformity with generally accepted accounting principles. The statements are presented on the accrual basis of accounting which recognizes revenues when earned and expenses when the related liabilities are incurred.

The Statement of Receipts, Disbursements, Other Financing Sources (Uses), and Changes in Cash and Investments, Exhibit D, prepared on the cash basis of accounting, presents amounts when they are received or disbursed.

The Statement of Appropriations and Expenditures, Exhibit E, is presented on the state's legal budgetary basis of accounting which recognizes expenditures on the encumbrance method. Expenditures include amounts payable or encumbered at June 30 and paid during the lapse period, which ends August 31 for regular appropriations and December 31 for capital improvement appropriations. The authority to expend appropriations ends with the close of the lapse period. However, the General Assembly may authorize reappropriation of the unexpended balances of capital improvement appropriations for the following year. The General Assembly also may authorize biennial capital improvement appropriations, for which the unexpended balances at June 30 of the first year of the two-year period are reappropriated for expenditure during the second year.

The cash basis of accounting and the budgetary basis of accounting differ from generally accepted accounting principles, which require revenues to be recognized when they become available and measurable or when they are earned and expenditures or expenses to be recognized when the related liabilities are incurred.

C. Fiscal Authority and Responsibility

The department administers transactions in the funds listed below. The state treasurer as fund custodian and the Office of Administration provide administrative control over fund resources within the authority prescribed by the General Assembly, except for the Self-Insurance Fund and the Local Fund which are controlled entirely by the department.

Self-Insurance Fund: Section 226.160, RSMo, authorizes a self-insurance plan for workers' compensation for the department and the state highway patrol. Under Section 226.160, RSMo, the self-insurance plan for workers' compensation is established pursuant to the provisions of Chapter 287, RSMo, governing workers' compensation. Under Chapter 287, RSMo, the Department of Labor and Industrial Relations-Division of Workers' Compensation has required the department to establish an escrow agreement in the amount of \$200,000 to operate as a self-insurer. The department is in compliance with this requirement and maintains contributed capital in the amount of \$210,000 in a escrow account funded by a contribution from the State Highway Department Fund. Section 226.092, RSMo, authorizes a self-insurance plan for automobile liability for the department. In addition, a self-insurance plan for general liability was established in August 1994. Monies received by the fund are amounts for payment of claims and administrative costs.

General Revenue Fund-DOT Federal: The department administers several programs financed wholly or partially by federal monies maintained in the state treasury in the Department of Transportation's Federal Account. These federal funds may be received in advance, when related expenditures are made, or after they are made. Appropriations from this fund authorize the disbursements of the department's federal funds.

State Highway Department Fund: This fund is constitutionally established to receive revenues derived from the use of state highways. This fund pays the costs incurred to collect that revenue, to administer the Highway and Transportation Commission and the Department of Transportation, to administer and enforce state motor vehicle laws and traffic regulations, and to provide other related functions.

The fund consists of monies received from the Motor Fuel Tax Fund and collections from highway users incident to their use or right to use the highways of the state, including all state license fees and taxes upon motor vehicles, trailers, and motor fuels, and upon the privilege of the manufacture, receipt, storage, distribution, sale and use thereof, excepting the sales tax on motor vehicles and trailers and all property taxes not apportioned to local governmental units. All interest earned on the fund is credited to the fund. The Department of Revenue acts as agent for the fund in collecting these monies.

Disbursements are authorized by appropriation, and balances remaining in the fund are perpetually maintained for the purpose of the fund, except that end-of-the-month balances in excess of \$35 million (increased from \$12 million effective July 1998) are transferred to the State Road Fund.

State Road Fund: This fund is constitutionally established to receive monies from the federal government intended for highway purposes. Other revenues of this fund include interest earned on the fund balance, transfers from the State Highway Department Fund and Motor Fuel Tax Fund, motor vehicle sales taxes, and any other revenues if held for expenditure by or under the department and if not required to be placed in the State Highway Department Fund. This fund pays costs incurred to construct, improve, and maintain the state highway system. Disbursements are authorized by appropriation, and balances remaining in the fund are perpetually maintained for the purpose of the fund.

State Transportation Fund: This fund is constitutionally established to receive 1 percent of one-half of the 3 percent state sales tax on all motor vehicles. As provided by Section 226.225, RSMo, appropriations from this fund authorize the disbursements for transportation purposes other than road and highway construction and maintenance. Balances in the fund are perpetually maintained for the purpose of the fund.

Aviation Trust Fund: This fund is established by Section 155.090, RSMo, to receive the amount of use tax on aviation fuels used in aircraft for which no refund was applied. Section 142.230, RSMo, allows a refund of the motor fuel tax if the fuel is not used in the operation of motor vehicles on the highways. If a person uses the fuel in an aircraft but fails to apply for a refund, the amount of the refund is considered a gift to the Aviation Trust Fund.

As provided by Section 305.230, RSMo, appropriations from this fund authorize disbursements for the annual printing of aeronautical charts and directories, airport safety improvement projects, aviation safety workshops, promotion of aerospace education, and as matching funds on an 80 percent state/20 percent local basis for preventative maintenance and emergency repairs of publicly owned airport runways, land acquisition for development or improvement to airports, construction or repair of airports, engineering, technical studies or consultation related to aeronautics, airport planning projects, and for various safety and communications equipment. Balances in the fund are perpetually maintained for the purpose of the fund.

State Transportation Assistance Revolving Fund: This fund is established by Section 226.191, RSMo, to receive moneys appropriated or credited to it by the General Assembly for transportation needs other than the construction or maintenance of state highways. Other revenues of this fund include interest earned on the fund balance and any gifts, contributions, grants or bequests received from federal, private or other sources.

Disbursements are loans to any political subdivision of the state or to any public or private not-for-profit organization for the planning, acquisition, development and construction of facilities for transportation by air, water, rail or mass transit; for the purchase of vehicles for the transportation of elderly or handicapped persons; and for the purchase of rolling stock for transit purposes. Loan repayments, including interest, are credited to the fund and are used for other eligible projects. Balances in the fund are perpetually maintained for the purpose of the fund.

Local Fund: This fund, as authorized by Section 227.180, RSMo, receives as trustee monies from any county, civil subdivision or other interest party which may contract to contribute toward the costs of construction of any road or bridge as part of the state highway system. Disbursements from the fund consist primarily of refunds and transfers to the State Road Fund for costs of local projects.

General Revenue Fund-State: The department receives appropriations from this fund and does not maintain a proprietary interest in the fund. Appropriations from the fund are used to initially fund, or to provide matching funds or support for, programs paid wholly or partially from other sources.

Third State Building Fund: The department receives appropriations from this fund and does not maintain a proprietary interest in the fund. Appropriations from the fund

are used for certain capital improvement projects. Any unexpended balances, representing the uncompleted portion of capital improvement projects, are transferred to the Third State Building Trust Fund and reappropriated for the following year.

Third State Building Trust Fund: The department receives appropriations from this fund and does not maintain a proprietary interest in the fund. Appropriations from the fund are used for certain capital improvement projects. Unexpended balances that are reappropriated for the following year represent the uncompleted portion of capital improvement projects.

D. Employee Fringe Benefits

In addition to the social security system, employees are covered by the Highway Employees' and Highway Patrol Retirement System (HEHPIP) (a noncontributory plan) and may participate in the Missouri Department of Transportation and Missouri State Highway Patrol's medical benefit and life insurance plan, and the state's deferred compensation and cafeteria plans. The cafeteria plan involves employee payroll reductions. The deferred compensation plan involves employee payroll deferrals and a monthly state matching contribution for each participating employee.

The state's required contributions for social security and medicare taxes are paid from the same funds as the related payrolls. Retirement system contributions and the state's contribution to the medical benefit and life insurance plans are paid from the State Highway Department Fund.

Transfers related to the state's portion of social security and medicare taxes are not appropriated by agency and thus are not presented in the financial statement at Exhibit E.

2. Cash and Investments

The balances of the General Revenue Fund-DOT Federal, State Highway Department Fund, State Road Fund, State Transportation Fund, Aviation Trust Fund, and State Transportation Assistance Revolving Fund are pooled with other state funds and invested by the state treasurer.

Amounts in the Self-Insurance Fund and the Local Fund represent cash and investments which are in the custody of the department. The department has determined that checking accounts, repurchase agreements, U.S. Treasury notes, and U.S. Government Agency notes are appropriate types of accounts and investments for its needs.

Self-Insurance Fund

Deposits

The department's deposits consisted of a noninterest-bearing checking account with a carrying amount equal to the bank balance of \$62. The department's deposits at June 30, 1998, were entirely covered by federal depositary insurance.

Investments

The department's investments are composed of the following:

	<u>June 30, 1998</u>
	<u>Fair</u>
	<u>Value</u>
Repurchase agreements (interest rate of 5.361 percent)	\$ 286,185
U.S. Treasury notes (interest rates of 4.75 to 6.375 percent)	6,093,509
U.S. Government Agency notes (interest rates of 5.27 to 6.45 percent)	<u>17,165,586</u>
Total	<u>\$ 23,545,280</u>

The net increase in the fair value of investments during the year ended June 30, 1998, was \$20. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year.

These investments were held by a third-party custodial bank in the department's name, and were entirely covered by collateral securities held by the department's custodial bank in the department's name.

However, because of significantly higher bank balances at certain times during the year, uninsured and uncollateralized balances existed at those times although not at year-end.

To protect the safety of state deposits, Sections 30.270 and 110.020, RSMo 1994, require depositaries to pledge collateral securities to secure deposits not insured by the Federal Deposit Insurance Corporation.

Local Fund

Deposits

The department's deposits consisted of a noninterest-bearing checking account with a carrying amount equal to the bank balance of \$247,089. The department's deposits at June 30, 1998, were entirely covered by federal depositary insurance or by collateral securities held by the department's custodial bank in the department's name.

Investments

The department's investments are composed of repurchase agreements with a fair value of \$17,717,917.

These investments were held by a third-party custodial bank in the department's name, and were entirely covered by collateral securities held by the department's custodial bank in the department's name.

3. Risk Management

Various lawsuits against the department arise incident to the department's normal operations. These include workers' compensation, vehicle liability, general liability, inverse condemnation, and contractor suits. It is the policy of the department not to purchase commercial insurance, but to manage its risks internally by setting aside assets for the settlement of certain claims in its internal service fund, the Self-Insurance Fund. The Self-Insurance Fund services claims for workers' compensation, vehicle liability, and general liability.

Inverse condemnation and contractor suits are paid from the State Road Fund. While the outcome of cases currently in litigation cannot be determined, lawsuits are usually settled for substantially less than the amount of the suits. Historically, the amounts paid from the State Road Fund for such suits have not been material to the financial statements; therefore, no provisions for any liability that may result from such suits have been made in the financial statements.

Self-Insurance Fund liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Estimated claims payable represents the department's determination of the expected losses to be realized on known claims pending against the Self-Insurance Fund. Department personnel estimate the claims liability based on prior claims experience. Estimated unreported claims represents expected losses or claims against the Self-Insurance Fund that have been incurred but not reported. The unreported claims liability is established from data provided by an actuary.

Liabilities for incurred losses are reported at their discounted value, assuming an investment yield of 7 percent. Changes in the balance of claims liabilities during fiscal year 1998 were as follows:

	Balance July 1, 1997	Claims and Changes in Estimates	Claim Payments	Balance June 30, 1998
Estimated claims payable and unreported claims	\$ 18,947,836	10,130,590	7,853,423	21,225,003

The department contracts annually with an actuary to provide estimates of fund liabilities. The estimates include pending claims and claims incurred but not reported. The actuary's estimates of unpaid losses at July 31, 1998, discounted at a rate of 7 percent for investment earnings, were as follows:

	Method 1	Method 2
Highway workers' compensation	\$ 11,007,000	13,442,000
Highway patrol workers' compensation	2,162,000	2,621,000
Highway automobile liability	1,423,000	1,637,000
Highway general liability	5,452,000	7,885,000
	<u>\$ 20,044,000</u>	<u>25,585,000</u>

Method 1 estimates of ultimate losses are calculated by utilizing the incurred loss development method. Method 2 estimates include the incurred loss development method, the paid loss development method, and the expected loss and development method.

4. Loan Proceeds

Loan proceeds consist of loans or advancements from the federal government, local governmental entities, or private sources to finance the acceleration of state projects which must be repaid in the future.

5. Operating Transfers Out

The transfer out amounts include the applicable funds' proportional share of fiscal year 1996 and 1995 refunds required by Article X, Section 18 of the Missouri Constitution. These

Fund	Amount
State Highway Department Fund	\$ 8,207,612
State Road Fund	9,729,184
State Transportation Fund	4
Aviation Trust Fund	26,331

refunds were:

6. Appropriations Exercised by Other State Agencies

Various state agencies receive direct appropriations from the State Highway Department Fund to pay costs incurred in highway-related activities, and the Aviation Trust Fund for refunding of any overpayments or erroneous payment of any tax which is credited to the fund. These appropriations were exercised during the year ended June 30, 1998, by the following agencies:

STATE HIGHWAY DEPARTMENT FUND

<u>Agency</u>	<u>Amount</u>
Department of Public Safety	\$ 103,406,997
Department of Revenue	93,636,137 *
Department of Economic Development	2,305,986
Office of Administration	852,698
State Auditor's Office	571,831
State Treasurer's Office	388,779
Department of Natural Resources	4,957
Employee fringe benefit transfers	11,464,462
Total	<u>\$ 212,631,847</u>

* Includes motor fuel tax refunds totaling \$45,865,505.

AVIATION TRUST FUND

<u>Agency</u>	<u>Amount</u>
Department of Revenue	\$ 12,776

7. Reconciliation of Total Disbursements to Appropriate Expenditures

Disbursements on Exhibit D reconcile to appropriated expenditures on Exhibit E as follows:

Year Ended June 30, 1998					
	General Revenue	State Highway		State	Aviation
	Fund-DOT	Department	State Road	Transportation	Trust
	Federal	Fund	Fund	Fund	Fund
DISBURSEMENTS PER EXHIBIT D	\$ 30,915,607	91,740,359	1,013,545,849	8,409,565	372,527
Employee fringe benefits	(97,846)	(1,163,879)	(15,797,146)	(7,992)	0
Lapse period expenditures:					
1998	999,631	1,836,437	6,006,386	1,307,217	0
1997	(1,464,684)	(1,714,872)	(53,263,690)	(1,523,553)	(20,328)
Accounts payable, June 30:					
1998	0	400,307	4,427,463	950,000	0
1997	0	(431,697)	(1,862,030)	0	0
EXPENDITURES PER EXHIBIT E	\$ 30,352,708	90,666,655	953,056,832	9,135,237	352,199

8. Contractual Commitments and Planned Expenses of Highway Construction

At year-end, the department estimated future expenses on projects in progress and in various stages of planning as follows:

	June 30, 1998
By outside contractors:	
Construction awards	\$ 583,329,430
By the department	
Preliminary engineering	255,994,109
Construction engineering	16,198,344
Right-of-way acquisition	56,290,714
Total by the department	328,483,167
Total	\$ 911,812,597

Construction awards represent the balances of contract commitments for construction projects. These contractual commitments will become legal obligations of the department as work is performed or services are provided. These contractual commitments and planned expenses are not reflected in the financial statements.

At June 30, 1998, the department estimated federal participation on federal aid projects included in project totals above was \$418,655,532.

9. Innovative Financing Agreements

The MoDOT has entered into a number of agreements with political subdivisions and transportation corporations, whereby alternative funding is secured to build highway projects.

MoDOT commits future departmental revenues to repaying the entities which provided the funding. As of June 30, 1998, the obligations are as follows:

	Year Ended June 30,					Subsequent Years
	1999	2000	2001	2002	2003	
City of Columbia	\$ 1,250,000					
Missouri Transportation Finance Corporation (Cape Girardeau Bridge Project)		2,000,000	7,000,000	7,000,000	7,000,000	5,000,000
Highway 179 Transportation Corporation		3,182,700	2,731,818	2,813,772	2,898,185	19,754,201
City of Springfield, Missouri State Highway Improvement Corporation			5,000,000	5,000,000	5,000,000	13,667,000
St. Charles County				1,000,000	1,000,000	
City of Belton, Route 58			2,907,000			
Scott County			3,600,000			
City of St. Charles		100,000				
City of Warrensburg	41,500					
Total	\$ 1,291,500	5,282,700	21,238,818	15,813,772	15,898,185	38,421,201

Required Supplementary Information

MISSOURI DEPARTMENT OF TRANSPORTATION REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

Year 2000 Project

The scope of the MoDOT Year 2000 project covers all functions directly performed by the department, as well as relationships with outside vendors, contractors, government entities, public institutions, and other stakeholders with whom MoDOT exchanges information.

There are unique distinctions between information technology systems and embedded technology components within the operations of MoDOT's basic infrastructure. MoDOT's Year 2000 project distinguishes between activities in these two categories for the purpose of applying appropriate expertise to each one. Although work performed in each category is separate and unique, there is a joint report and a common inventory and remediation database for the department.

MoDOT has adopted a five-stage methodology to address the Year 2000 issue, consisting of the following phases:

Awareness Phase

The awareness phase educates department personnel and the public to the various issues surrounding Year 2000 at MoDOT. Presentations, newsletters, internal web pages, project updates, and other multimedia events are some of the ways this information is disseminated. The project plan is created during this phase, and major tasks and subtasks to complete the work on time are identified. The priority scheme that determines critical exposures is established and key terms are defined.

Inventory Phase

The inventory phase identifies systems and components potentially affected by the year 2000 problem. The department established an initial list of systems and components which could be affected, and similar lists were obtained from national web sites dedicated to solving Year 2000 issues. This phase includes investigation of paper inventories, and a physical count for validation of the record.

Assessment Phase

The assessment phase performs a risk analysis by correlating the inventory list with the established set of priorities to determine the critical sequence for remediation. This phase also produces a remediation strategy that determines which components need remediation, those which are not critical enough to be addressed, and those which are not affected by Year 2000.

Remediation Phase

The remediation phase performs the actual repair, replacement, or disposal of components based upon priorities assigned in the assessment phase. Test procedures, test scripts and vendor validation are also tasks performed in this phase.

Implementation Phase

This phase puts components which have been modified for Year 2000 compliance back into production status. Contingency plans for critical business operations are developed and reviewed with business units to ensure a backup mode of operation exists, and that resources can be applied to the problem for a quick resolution.

Priorities

The department has defined a set of four criteria to address potential problems in MoDOT's systems and equipment. They are:

Priority 1 - Safety related (e.g., traffic signals)

Priority 2 - Immediate loss or stoppage of essential business functions (e.g., overdimension permits, weigh stations, bid lettings, payrolls, bill payment, computer hardware and software, communications, fleet, electric)

Priority 3 - Eventual loss or stoppage of business (e.g., heating, elevators, security, less essential computer hardware and software)

Priority 4 - Noncritical impact (e.g., copiers, microwaves, VCR's, electric wall clocks)

Remediation work is focused on the highest priorities first.

Resources Committed

As of April 2, 1999, in the information technology portion of the project, the awareness phase was 95 percent complete, the inventory phase was 88 percent complete, the assessment phase was 82 percent complete, and the remediation phase was 56 percent complete. In the embedded technology portion, the awareness phase was 95 percent complete, the inventory phase was 82 percent complete, the assessment phase was 77 percent complete, and the remediation phase was 64 percent complete.

An internal staff commitment of more than 28,000 hours is dedicated to the Year 2000 project, and \$1.6 million in outside consultant resources will be utilized to complete the plan.

Supplementary Data

Schedule 1

MISSOURI DEPARTMENT OF TRANSPORTATION

SELF-INSURANCE FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS

	Year Ended June 30,				
	1998	1997	1996	1995	1994
OPERATING REVENUES					
Insurance premiums					
Highway workers' compensation	\$ 4,497,486	3,186,155	2,070,795	4,524,755	5,732,890
Highway patrol workers' compensation	816,696	680,580	408,348	260,430	625,052
Highway automobile liability	849,912	862,822	485,397	461,784	452,031
Highway general liability	995,009	2,259,864	1,606,541	1,101,123	5,560,569
Other	181,670	134,895	274,828	117,864	285,751
Total Operating Revenues	<u>7,340,773</u>	<u>7,124,316</u>	<u>4,845,909</u>	<u>6,465,956</u>	<u>12,656,293</u>
OPERATING EXPENSES					
Program	398,338	255,103	47,976	233,890	543,032
Self-insurance claims	10,130,590	4,241,816	9,865,120	7,791,466	8,486,668
Total Operating Expenses	<u>10,528,928</u>	<u>4,496,919</u>	<u>9,913,096</u>	<u>8,025,356</u>	<u>9,029,700</u>
OPERATING REVENUES OVER (UNDER) OPERATING EXPENSES	-3,188,155	2,627,397	-5,067,187	-1,559,400	3,626,593
NONOPERATING REVENUES					
Investment income					
Interest	1,354,880	1,338,953	1,315,676	1,000,173	764,874
Net increase in the fair value of investments	20	0	0	0	0
Total investment income	<u>1,354,900</u>	<u>1,338,953</u>	<u>1,315,676</u>	<u>1,000,173</u>	<u>764,874</u>
REVENUES OVER (UNDER) EXPENSES	-1,833,255	3,966,350	-3,751,511	-559,227	4,391,467
RETAINED EARNINGS, JULY 1	4,276,398	310,048	4,071,559	4,630,786	239,319
To restate contributed capital to amount reserved by MoDOT	0	0	-10,000	0	0
Cumulative effect of a change in accounting principle	-7,435	0	0	0	0
RETAINED EARNINGS, JUNE 30	<u>\$ 2,435,708</u>	<u>4,276,398</u>	<u>310,048</u>	<u>4,071,559</u>	<u>4,630,786</u>

The accompanying Note to the Supplementary Data is an integral part of this statement.

Schedule 2

MISSOURI DEPARTMENT OF TRANSPORTATION
COMPARATIVE STATEMENT OF EXPENDITURES (FROM APPROPRIATIONS)

		Year Ended June 30,				
		1998	1997	1996	1995	1994
Personal service	\$	206,949,636	203,091,232	191,084,660	186,782,328	182,003,987
Employee fringe benefits		53,185,726	52,343,768	49,830,178	49,426,487	36,507,780
Capital improvements		7,788,969	6,184,302	9,263,669	8,752,220	8,405,561
Repairs and improvements		1,364,453	2,117,645	341,062	1,004,640	1,250,283
Programs		52,229,344	37,809,169	28,351,939	28,503,851	25,209,806
Travel and vehicle		16,768,176	18,904,796	17,164,088	16,507,358	16,655,152
Transportation equipment purchases		15,782,178	23,914,983	18,003,572	25,253,921	15,323,389
Office expense		21,537,841	12,492,367	10,652,900	11,316,415	6,857,189
Office and communication equipment purchases		6,004,067	4,837,219	2,891,226	527,847	504,890
Communication expense		3,954,400	3,004,357	2,431,737	2,239,964	1,833,101
Institution and physical plant expense		16,570,856	17,435,447	13,058,607	15,139,919	13,235,053
Data processing expense and equipment		9,240,781	6,342,293	3,545,533	489,118	1,180,600
Professional services		28,802,585	34,277,788	34,266,756	28,560,854	27,217,802
Highway construction		568,584,821	603,197,335	581,786,628	556,671,690	482,353,126
Highway maintenance		50,481,238	69,230,045	60,702,056	80,599,978	126,020,154
Insurance		22,026,353	25,552,632	21,326,810	24,987,036	24,630,035
Central supply purchases		11,167,650	13,711,887	13,689,352	20,802,896	10,023,937
Other		1,634,629	6,821,859	1,005,564	714,753	739,026
Totals	\$	1,094,073,703	1,141,269,124	1,059,396,337	1,058,281,275	979,950,871

The accompanying Note to the Supplementary Data is an integral part of this statement.

Schedule 3

MISSOURI DEPARTMENT OF TRANSPORTATION
STATEMENT OF CHANGES IN GENERAL FIXED ASSETS AND ACCUMULATED DEPRECIATION (NOTE 1)
YEAR ENDED JUNE 30, 1998

	Land	Buildings	Buildings in Progress	Vehicles and Specialized Equipment	Tools and Equipment	Tools and Equipment Federal Funded	Total
INVENTORY							
Balance, June 30, 1997	\$ 14,117,628	102,573,061	41,823,890	190,159,372	113,266,345	2,399,515	464,339,811
Additions	4,585,075	21,734,484	6,198,436	14,549,709	14,844,462	306,817	62,218,983
Dispositions	-3,236	-193,251	-21,420,476	-9,252,374	-9,563,173	-253,999	-40,686,509
Balance, June 30, 1998	18,699,467	124,114,294	26,601,850	195,456,707	118,547,634	2,452,333	485,872,285
ACCUMULATED DEPRECIATION							
Balance, June 30, 1997	0	-51,847,632	0	-103,481,274	-71,516,493	0	-226,845,399
Provisions	0	-2,576,114	0	-14,200,534	-11,589,206	0	-28,365,854
Dispositions	0	193,251	0	7,739,967	8,990,813	0	16,924,031
Balance, June 30, 1998	0	-54,230,495	0	-109,941,841	-74,114,886	0	-238,287,222
NET BOOK VALUE							
June 30, 1998	\$ 18,699,467	69,883,799	26,601,850	85,514,866	44,432,748	2,452,333	247,585,063

The accompanying Note to the Supplementary Data is an integral part of this statement.

Note to the Supplementary Data

MISSOURI DEPARTMENT OF TRANSPORTATION
NOTE TO THE SUPPLEMENTARY DATA

1. General Fixed Assets

General fixed assets, which are recorded as expenditures when acquired, are capitalized at cost in the General Fixed Assets Account Group. Accumulated depreciation is recorded by reducing the investment in the General Fixed Assets Account Group. The department's general fixed assets consist of the following:

Buildings and Land: The cost of buildings and related improvements is capitalized when purchased and depreciated on a straight-line basis over the estimated useful life. All building and improvements owned at June 30, 1982 were previously expended and are presented as fully depreciated assets. Land has been capitalized at cost and is not depreciated. At June 30, 1998, general fixed assets included \$26,601,850 of buildings in progress.

Vehicles and Specialized Equipment: This category consists of all department-owned vehicles and equipment. Equipment is recorded at original cost except for situations in which used equipment is traded in on the purchase of new equipment. In those situations, the recorded cost of the new equipment is the book value of the used equipment plus any cash given. Accumulated depreciation is calculated by using various straight-line or statistically derived formulas over the expected useful lives of the assets.

Tools and Equipment: This category consists of all department-owned tool and equipment items, with the exception of those purchased with federal funds. These items are depreciated on a straight-line basis over their estimated useful lives.

Tools and Equipment-Federal Funded: This category consists of tool and equipment items purchased initially with federal funds. These items are capitalized at cost, but they are not depreciated because including the depreciation expense in the additive rates would result in these costs being claimed again on federal projects.

Right-of-Way and Road and Bridge Construction: The department's accounting system is based on the "Manual of Uniform Highway Accounting and Financial Management Procedures" prepared by the American Association of State Highway Transportation Officials (AASHTO). Under the AASHTO system, the costs of right-of-way acquisition and road and bridge construction are treated as current period expenses and are not capitalized.

MANAGEMENT ADVISORY REPORT SECTION

Management Advisory Report -
State Auditor's Current Recommendations

MISSOURI DEPARTMENT OF TRANSPORTATION
SUMMARY OF FINDINGS

1. Property Damage (pages 41-43)

The department has not ensured responsible parties are identified and billed for the cost of repairing damage to MoDOT property. As a result, from January 1995 to March 1999, the department wrote-off as uncollectible approximately \$3 million in property damage accounts.

If the responsible parties would have been identified, an additional \$1.2 million in revenues could have been billed and a substantial portion of this collected. In addition, instances were noted where accounts have not been properly established to account for the costs of repairs where MoDOT property was damaged. The amount of potential revenue which might have been lost as a result of this situation could not be determined.

2. Allocation of Federal Bridge Monies (pages 44-45)

During fiscal years 1998 and 1999, the MoDOT reduced the allocation of federal bridge monies to the various counties within the state and the city of St. Louis by over \$1.1 million, the amount of funding appropriated to the State Auditor's office from the State Highway Department Fund during those years. This reduction in allocations did not appear justified.

3. Information Systems Division Reorganization (pages 45-46)

The procurement of consulting services, involving expenditures of approximately \$336,000 related to the reorganization of the Information Systems Division, did not appear to be handled properly and authorized in accordance with department policy. There was no written contract/agreement between the MoDOT and the consultant identifying the scope of services to be provided and the compensation to be paid.

4. Moving Expenses (pages 47-48)

The department's employee moving expenses appear excessive.

5. Plane Usage (pages 48-50)

The specific purpose of many flights, all passengers, and other pertinent information is not adequately documented. In addition, documentation authorizing out-of-state flights and a comparison of the cost of a commercial flight to the cost of using a department (or charter) plane is not documented and retained.

6. District Procurements (pages 50-51)

The procurement of certain aggregate materials and gasoline and diesel purchases at various maintenance sheds in District 9 were not made in accordance with the department requirements.

7. Access to Computer System (page 51)

Access to the department's computer system is not updated on a timely basis when an employee moves to a new position or terminates employment.

8. Subrecipient Monitoring (pages 52-53)

The Local Public Agency Manual, which is provided to subrecipient entities and identifies federal compliance requirements, does not address the cash management requirement. The department does not ensure that subrecipients submit the required statement of procedures or ensure subrecipients evaluate at least three firms as required, when the subrecipient obtains engineering services. The department does not have adequate procedures to ensure findings reported in subrecipient audit reports are properly addressed.

MISSOURI DEPARTMENT OF TRANSPORTATION
MANAGEMENT ADVISORY REPORT

We have audited the special-purpose financial statements of the Missouri Department of Transportation as of and for the year ended June 30, 1998, and have issued our report thereon dated April 2, 1999.

The following Management Advisory Report presents our findings and recommendations arising from our audit of the department's special-purpose financial statements. During our audit, we also identified certain management practices which we believe could be improved. Our audit was not designed or intended to be a detailed study of every system, procedure, and transaction. Accordingly, the findings presented in the following report should not be considered as all-inclusive of areas where improvements may be needed.

1.	Property Damage
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Individuals or entities that damage MoDOT property are responsible for paying the costs of repairing the damage. Most of this damage occurs because of vehicular accidents. The District offices are primarily responsible for reporting the damage, accounting for the costs of repairs, and identifying the responsible parties.

When the Districts discover damage to department property, the Districts are supposed to establish a numbered property damage account for each accident to which all repair costs (i.e. labor, material, equipment, etc.) are charged. To identify the individual responsible for the damage, District personnel review accident reports received from the Missouri State Highway Patrol (MSHP) and local law enforcement agencies. Assuming the responsible party can be identified, the department bills the responsible party for the repair costs. If the responsible party has not been determined by the time the District notifies the Risk Management Division that the repairs are complete and all costs have been charged to the applicable property damage account, the department will write off the account as unknown and absorb the cost of the repairs.

During fiscal 1998, property damage costs recorded in the accounts receivable records totaled \$1,907,255, property damage collections totaled \$895,464, and accounts written off totaled \$1,684,739 (including \$642,856 in unknown accounts written off in March 1998). As of November 30, 1998, total property damage accounts receivable where the responsible parties were known (involving 1,184 accounts) exceeded \$1.6 million. In addition, according to department records at that date, there existed an additional \$1.5 million in damage caused by "unknown" parties (involving 1,874 accounts) which were still being carried on the records. Our review of the property damage records and related procedures disclosed the following concerns:

- A. The department has not made a sufficient effort to ensure responsible parties are identified and billed for the cost of repairs. During fiscal year 1998, over 2,000 property damage accounts were set up, with approximately 1,200 of these accounts being classified as

unknown. Approximately 70 percent of these unknown accounts relate to accidents in District 4 (Kansas City area) and District 6 (St. Louis area).

During a review of forty property damage accounts classified as unknown established during fiscal year 1998, we were able to match sixteen (40 percent) of these accounts to accident reports (prepared by either the MSHP or a local law enforcement agency) identifying a party responsible for the damage. The cost of repairs accumulated by the department for these sixteen accounts totaled approximately \$60,000, and 11 of the 16 accounts, with accumulated costs totaling over \$20,000, were written off during fiscal year 1998.

It appears the department has written off as unknown a significant amount of potentially billable revenues. During the period from January 1995 through March 1999, the department wrote off approximately \$3 million in unknown property damage accounts as uncollectible. If the department had been able to identify the responsible parties for 40 percent (our error rate) of this amount, the department could have billed and possibly collected an additional \$1.2 million related to these accounts. According to Risk Management Division personnel, approximately 75 percent of property damage billings are collected; therefore, it appears a substantial portion of this amount could have been collected had it been billed.

- B. It appears in many instances property damage accounts have not been properly established to account for the costs of repairs where MoDOT property was damaged. The MSHP was able to provide us with a listing of all accident reports identifying damage to MoDOT property in fiscal year 1998 from its Statewide Traffic Accident Records (STAR) system. We then selected forty accident reports from this listing to determine if the MoDOT established property damage accounts related to these accidents. In thirty-four of forty (85 percent) accident reports selected, it appears a property damage account was not established. Further, in all these instances, the accident report identified a responsible party. Thus, it appears these individuals were not billed for the costs of any repairs.

Although it appears the cost of repairing the damage related to some of these accidents was minimal, it is likely some of this damage would have been billed had the account been properly established and the responsible party identified. Since property damage accounts were not established and the associated costs of the repairs were not accumulated, we could not determine the amount of potential lost revenue.

As a result of this situation, it appears the department may be losing additional billable revenue due to property damage accounts not being properly established.

We were able to detect the problems noted above through the use of information provided by the MSHP as well as information maintained by the Traffic Division at the department's Support Center. The Traffic Division maintains an accident file related to the number and type of accidents

on a statewide basis and publishes a yearly Statewide Traffic Accident Statistics report. The Traffic Division maintains this accident file from monthly updates to the STAR system received from the MSHP. In addition, the Traffic Division has on-line access to the imaged accident reports from the STAR system.

Although the information maintained in the Traffic Division (including the imaged accident reports) could be very useful in identifying accidents involving damage to MoDOT property and the responsible parties, this information has not been shared with or used by those sections within the department (Risk Management Division and District offices) who are responsible for setting up the accounts, accumulating repair costs, and identifying and billing the responsible parties. From our discussions with various department personnel at both the Support Center and the Districts, it appears that identifying and billing the responsible parties for damage to MoDOT property has not been given a high priority. This has most likely contributed to the problems noted above.

According to MoDOT personnel, the department has five years from the date of the accident to bill the party responsible for the cost of repairing property damage. Therefore, it appears the department could still pursue a significant amount of those accounts written off as unknown in recent years. Considering the limited resources available and the extent of road work needed in the state, the MoDOT should make a concerted effort to ensure all potential revenue sources are pursued to the extent practical.

WE RECOMMEND the department ensure property damage revenue is maximized by properly setting up accounts involving damage to MoDOT property and identifying and billing the responsible parties on a timely basis. Information from the MSHP and the Traffic Division (including imaged accident reports) should be made available to the Risk Management Division and the Districts to assist in this effort. In addition, the department should consider reviewing accounts written off in the past five years to determine if the responsible parties can be identified and billed.

AUDITEE'S RESPONSE

The department has collected \$4,832,218 over the past five years through the property damage collection program. We have pursued collection on all claims where major highway structures (bridge, overhead sign, signal light, etc.) were damaged. We agree with the State Auditor that the development of the Patrol's STARS system along with enhancement of our own internal Traffic Accident System may facilitate a centralized search of accidents in an attempt to identify accidents where highway property was damaged. The department will reexamine any file written off over the past five years to see if there is a potential source of recovery identified by the STARS system and/or our own Traffic Accident System. However, the State of Missouri is a comparative negligence state and care and judgment must be exercised in the pursuit of claims collection to avoid counter claims where it can be alleged that a roadway feature contributed to the accident. Each accident is unique and must be carefully analyzed both in terms of a potential property damage recovery as well as any exposure of MoDOT to potential liability. Any increased attention to the collection program will be evaluated for cost effectiveness.

The MoDOT administers federal funds for the replacement and rehabilitation of public bridges from the Highway Bridge Replacement and Rehabilitation Program. Some of these monies are passed-through to the 114 counties within the state and the city of St. Louis (called off-system bridge replacement funds or the BRO Program). Although federal guidelines only require that 15 percent of these monies be allocated to these other political subdivisions, for fiscal years 1998 and 1999, the Missouri Highway and Transportation Commission (MHTC) authorized that \$19.4 million in each year be allocated to these entities, representing approximately 19 percent and 17 percent of the funds, respectively.

For fiscal year 1998, the MoDOT reduced the amount allocated to these various entities by \$571,831, the total amount appropriated in that year to the Missouri State Auditor's office (SAO) from the State Highway Department Fund. This was done to offset the SAO's audits of County Aid Road Trust (CART) Fund monies in third class counties. It appears this action was taken based on the legal advice of the department's Chief Counsel's Office which concluded that the SAO's audits of CART funds during county audits were an allowable expense (reimbursable) under federal guidelines. That office advised that the payments made to the SAO out of the State Highway Department Fund for CART audits are reimbursable "off the top" of BRO Program funds, and therefore, an amount equal to the audit costs could be deducted from the BRO Program funds prior to the distribution of the funds to the counties. The MoDOT also reduced the fiscal year 1999 allocation to the counties and the city of St. Louis by \$600,089, the total amount appropriated to the SAO from the State Highway Department Fund in fiscal year 1999.

It appears the MoDOT's rationale is flawed and the department is not justified in reducing the BRO Program allocations. CART monies are not federal funds; therefore, the department's contention that the SAO audits of CART Fund monies justify the reduction of allocations from BRO Program funds is not valid. In addition, while a small portion of SAO audit costs relate to the audit of BRO funds in third class counties, most of the costs relate to the audit of other monies, including the audit of all MoDOT funds, funds appropriated and expended by other state agencies from the State Highway Department Fund, CART funds, etc. The local governments affected include some entities (including the city of St. Louis and first and second class counties) which receive no audit services from the SAO.

As a result of this situation, BRO Program monies allocated to all counties and the city of St. Louis were inappropriately reduced from what was authorized by the MHTC by over \$1.1 million during fiscal years 1998 and 1999.

WE RECOMMEND the department discontinue reducing BRO Program allocations in this manner. Any adjustments to these allocations should be made on an equitable basis and comply with authorizations of the MHTC.

AUDITEE'S RESPONSE

Bridge funds received from the Federal Highway Administration (FHWA) are required to be used for the rehabilitation or replacement of deficient bridges located on public roads. States are required to allocate at least 15 percent and no more than 35 percent of their total apportioned bridge funds to the Off-System Bridge (BRO) Program. The MHTC approved the allocation of bridge funds for the BRO program and the use of the remainder of the funds for rehabilitation or replacement of deficient bridges on the rest of the network maintained by the department.

At the November 1998 Commission meeting, the MHTC made the allocation for the fiscal years 1998 and 1999 for the 114 counties and St. Louis, based on the anticipated revenue from the new TEA 21 funding legislation and the relative condition of the state's bridges on and off the state's system. The most important factor influencing the allocation of bridge funds among eligible recipients is the condition of the bridges being maintained by the counties, the city of St. Louis and MoDOT. The allocation decision made by the MHTC in November 1998 recognized that the condition of state maintained bridges as a group had deteriorated in relation to those maintained by the counties and city. The result was that more than 15 percent of available funds were allocated to BRO. Subsequently in March 1999 the MHTC, after consultation with the counties, increased the allocation for current and future years.

3. Information Systems Division Reorganization

In 1995, management of the Information Systems (IS) Division initiated a reorganization of that division. A consultant was hired in June 1995 to train IS personnel in the methodology used in the reorganization. This training was provided through a series of workshops conducted by the consultant or his designees. From June 1995 to January 1999, the department paid approximately \$336,000 for these consulting services. The reorganization was completed in December 1998. Our review of the procurement of these consulting services and related expenditures disclosed the following concerns:

- A. The procurement of these consulting services did not appear to be handled properly. It appears no request for proposal (RFP) was prepared to procure these services, nor were written bids or proposals solicited from other consultants.

According to the Director of the IS Division, formal bids or proposals were not solicited in this instance because he considered this consultant to be a sole-source provider of these services. However, the only documentation justifying the sole-source nature of the procurement provided by the Director of the IS Division in this instance was a letter from the consultant which noted that his services were unique and were not available elsewhere because the theory was a proprietary product of the company. Based on the documentation available, it appears this may not have been a proper sole-source

procurement, and it is possible other consultants could have provided similar services to the IS Division.

In addition, it does not appear proper authorization was obtained for these expenditures. It appears the only approval related to these services was authorization from the department's Automation Policy Committee, and this approval appears to have only been related to the \$25,000 license fee, not the cost of the training. The department's purchasing authority policy provided that expenditures over \$75,000 should be approved by the Commission.

- B. There was no written contract/agreement between the MoDOT and the consultant identifying the scope of services to be provided and the compensation to be paid. It appears the consultant established all parameters of the training, including his fee. For example, the agenda for the various workshops (training sessions) was established by the consultant. At his discretion, workshops were added or expanded to include more than one day on a topic. The consultant's fee was on a per workshop (usually a day long) basis and varied by the type of workshop. The cost of the workshops ranged from \$4,000 to \$6,300.

In addition to the amounts paid to the consultant, it appears the division generally paid luncheon costs for the day long workshops. It appears these meal costs generally averaged about \$500 per workshop. The department should review the need to routinely incur meal costs for those individuals attending training sessions or workshops.

It appears the IS Division entered into this arrangement with this consultant without a clear understanding of the potential total costs. The scope of services was not defined by the IS Division and the consultant's fees were not established up-front.

The MoDOT should ensure that its operating divisions procure consulting services in a proper manner and comply with the department's authorization policy. In addition, the MoDOT should ensure all meal costs incurred are necessary.

WE RECOMMEND the department ensure its divisions procure consulting services in a proper manner and comply with the established authorization policy. The department should also ensure all meal costs incurred are necessary.

AUDITEE'S RESPONSE

The original agreement for services from a single source vendor was made in accordance with the guidelines in place, at the time. In our opinion, the commitment was made for valid operating reasons and was executed in accordance with the prevailing policy. The documentation of the transaction may not be ideal, but approvals were obtained through the Automation Policy Committee, in the budgeting process and with management awareness. Subsequently in 1997, the

department clarified and expanded its procurement procedures and published a new procurement handbook. Steps will be taken in the future to ensure formal documentation is retained at decision points for the projects extending over long periods of time. These projects will be treated like a single project rather than several smaller projects.

4.

Moving Expenses

The department reimburses various moving expenses related to the recruitment of top management employees as well as the transfer of existing employees to other locations within the state. At our request, the department prepared a report of employee moving expenses paid during fiscal year 1998. According to this report, such costs totaled almost \$600,000. As similarly noted in our prior report, it appears some of these expenses may be unreasonable.

The MoDOT's policy for reimbursing such costs meets or exceeds the Office of Administration's (OA) policy in seven of sixteen areas. In addition, the MoDOT provides reimbursement in nine areas that are not allowed by OA's policy. One of these nine areas includes an additional amount to cover the increased tax liability on the reimbursed income tax liability (the gross-up).

While some of the MoDOT's reimbursable items appear typical, especially when a move occurs at the request of the employer, others appear excessive. For example, the total amount paid during fiscal year 1998 to reimburse individuals for their additional tax liability resulting from other reimbursed expenses was \$237,636. This additional payment, which included the "gross-up" amount, is determined by applying tax rates ranging from 28.60 percent to 45.65 percent to the taxable moving expense reimbursement and to the tax liability reimbursements. Using the gross-up provision, taxable moving expenses of approximately \$9,450 reimbursed to an employee in November 1997, resulted in an additional payment of \$6,750, resulting in total reimbursements being paid to this individual of approximately \$16,200.

While reviewing the moving expense information provided, we noted an instance where more than one move number was assigned to an individual, and it appears for some of the employees listed, additional expenses could have been paid in a previous or subsequent year. However, we compared the listing to employee salaries to look for instances where the department paid moving expenses exceeding 10 percent of the employee's annual salary. This appeared to be the case in over half of the moves. We noted four moves where the moving expense reimbursement was more than 50 percent of the employee's annual salary with one of the four individuals being reimbursed more than \$30,000. By limiting the total reimbursement to 10 percent of the employee's salary, the department's moving expense for fiscal year 1998 would have been approximately \$250,000, a savings of about \$350,000. It appears that by revising the moving expense reimbursement policy, the department could redirect highway resources to maintenance and construction activities.

Although the department's moving expenses decreased by over 30 percent in fiscal year 1998 compared to the previous year, this was not due to the department changing its reimbursement

policy. In addition, it appears the department is currently reviewing its reimbursement policy and discussing its provisions with the Office of Administration; however, no changes had been made to the policy as of April 1999.

WE AGAIN RECOMMEND the department continue to reevaluate the current moving expense policy, and look for ways to redirect resources currently used on moving to maintenance and construction activities. The department should consider including a per move cap on reimbursements.

AUDITEE'S RESPONSE

Employees are moved to benefit the traveling public by placing the selected talent in the proper location. It is MoDOT's intent to create an environment that will encourage employees to relocate to better serve the department's needs. When an employee relocates they incur substantial out-of-pocket expenses. It is the department's policy to reimburse the actual cost incurred including any tax burden that accompanies this reimbursement. To place an arbitrary limit of 10 percent of salary on moving expense as recommended by the audit would have resulted in 40 employees incurring an average of \$9,105 in expenses not reimbursed. In today's tight labor market when competition is exceptionally intense for engineering and technical talents, benefits including moving reimbursements, must be competitive with the market place. The department has made a decision that its current policy is necessary to support its operating needs. We will continue to work with the Office of Administration to identify changes in policy to eliminate differences while continuing to meet those operating needs.

5.

Plane Usage

The department maintains a fleet of three planes (a King Air, a Navajo, and a Cessna) to transport department employees and members of the Highway and Transportation Commission for various reasons, such as meetings at the districts, commission meetings, aerial photography, or other department business. According to department records, approximately \$207,000 (excluding pilot salaries, but including fuel, oil, parts, and repairs) was spent in 1998 to operate its planes, or a per hour cost of operation ranging from \$84 to \$482. The department's flight logs are to include information such as the purpose of the flight, the pilot, departure and arrival points, departure and arrival times, flying time, list of passengers, and other miscellaneous information.

The department classified 350 flights taken in department planes from March 1998 through March 1999 into twelve categories, such as travel by a Commissioner(s) for a purpose other than a commission meeting; travel by a Commissioner(s) for a commission meeting; travel by administration office personnel involving one or two passengers; travel by administration office personnel involving over two passengers; etc. Approximately 29 percent and 51 percent of these flights related to travel by Commissioners and department personnel, respectively. The other 20 percent of the flights were for miscellaneous reasons, including aerial photography.

Our review of the flight logs and related documentation disclosed the following concerns:

- A. The specific purpose of many flights was not adequately documented. In many instances, the flight logs included only a very general description of the purpose of the flight, such as “meetings”. In addition, we noted some information presented on the logs was not complete. There were several instances where departure and arrival points and/or the departure and arrival times were not recorded. In addition, the flight logs did not always list the names of all passengers. Sometimes, if there was more than one passenger, a notation of one passenger's name was included on the log, but the additional passengers were noted as +1, +2, etc.

To ensure the planes are used only for official state business, the specific purpose of the flight, all passengers, and other pertinent information should be fully documented.

- B. Department records indicated twenty-one out-of-state flights occurred between March 1998 and March 1999. One of these flights was a charter flight; however, the other flights were in department planes. According to department personnel, out-of-state travel in department (or charter planes) requires authorization by the department's management. In addition, employees are to provide management a comparison of the costs of commercial flights to the costs of using a department plane. The department did not retain documentation authorizing the out-of-state flights or of the cost comparisons.

To ensure out-of-state flights in department (or charter) planes are properly authorized and to ensure the most economical use of state resources, the department should prepare and retain written authorization for such flights and retain documentation comparing the costs of commercial flights to the costs of using department (or charter) planes. This documentation should be retained with the other flight information.

WE RECOMMEND the department:

- A. Ensure the specific purpose of all flights, the names of all passengers, and other pertinent information is documented.
- B. Ensure proper authorization for out-of-state flights and a comparison of the costs of commercial flights to the cost of using department (or charter) planes for such flights is documented and retained.

AUDITEE'S RESPONSE

MoDOT does not classify flights. Flight logs just happened to be stacked and labeled at the time of the audit to verify a legislative request. Since April 1999, all passenger flights are being handled by the Office of Administration - Flight Operations. Flight requests and information are consistently being furnished to OA by the requestor and pilots. The information is included on the flight

manifests. We agree with the recommendation, and the existing process ensures flight information is properly documented.

Ensuring proper authorization for out-of-state flights and economic comparisons are a responsibility of the requestor. We will reiterate to requestors the need to retain this information.

6. District Procurements

During our audit, we reviewed various expenditures and related documentation to support the procurement of aggregate material and gasoline and diesel at several maintenance sheds in District 9 (Willow Springs). Our review disclosed that such purchases were not always made in accordance with the MoDOT requirements. According to the MoDOT's procurement handbook, purchases between \$1,000 and \$3,000 need written quotes and purchases over \$3,000 require formal bids. For purchases under \$1,000 (also for purchases of gasoline and diesel over \$1,000), the department guidelines allow the use of telephone quotes. The documentation of telephone quotes should include the vendors contacted, the time and date of the contacts, and the vendors' quoted prices. The department's policy requires that bid documentation be retained. The specific problems noted were as follows:

- A. In July 1998, maintenance personnel in District 9 purchased sand, costing a total of \$8,300, for three maintenance sheds. There was no documentation of bids for this purchase. Since this purchase was over \$3,000, the department's formal bid procedures, including the retention of bid documentation, should have been followed.
- B. We also reviewed fifty-seven purchases of gasoline and diesel. According to maintenance personnel, telephone quotes are used for these purchases and department procedures for telephone quotes provide that a minimum of three vendors should be called, if three are available. In nine instances (16 percent), no bid documentation was available to support the purchases. In addition, in twenty-five instances (44 percent), there was documentation of only two bids being obtained. Maintenance personnel indicated that in these instances, a third vendor was not available or a third vendor was contacted but did not provide a bid/quote. However, there was no documentation maintained to support these explanations.

The department needs to ensure that the department's policies and procedures related to the procurement of gasoline and diesel are followed and bid documentation is properly retained.

WE RECOMMEND the department ensure its bid policies and procedures are followed related to the purchase of aggregate material and gasoline/diesel by the districts. In addition, adequate bid documentation should be retained.

AUDITEE'S RESPONSE

We concur that all documentation for bid/quotes should be retained. We will communicate a reminder of this requirement to district staff and request this policy be followed by all locations with these types of transactions. A quality assurance program is being implemented to ensure compliance to this and other department policies and procedures.

7.

Access to Computer System

When department employees change jobs or terminate employment, their access to the department's computer system is not updated on a timely basis. An employee is initially authorized access to the system when a Network Access Request Form is processed. This form identifies the access each employee is allowed based on their job title and description, is approved by the appropriate manager, and is sent to the Information System (IS) Division for entry and access to the system. When an employee moves to a different position or terminates employment, the applicable manager is responsible for removing the employee's authorization to the previous access areas. However, according to IS Division personnel, a query of the department's computer system disclosed that over 1,400 employee identification numbers were still in the system related to individuals who were not currently MoDOT employees.

To establish proper accountability and ensure the security of the data within the computer system, access to information should be limited to current department employees who need it to perform their assigned duties. Access to the department's computer system should be updated on a timely basis when an employee moves to a new position or terminates employment.

WE RECOMMEND the department ensure employee access to its computer system is updated on a timely basis.

AUDITEE'S RESPONSE

When department employees change jobs or terminate employment, their access to the department's computer system is not updated on a timely basis.

We concur with the recommendation. Although procedures are in place to deactivate employee computer IDs, delays often occur as a result of the need to determine the proper disposition of departing employees' computer files in regard to ongoing work in their area. A more timely process for performing this task would contribute to a quicker deactivation of computer IDs.

The MoDOT passes federal funds to subrecipient local governments through various programs, including the Highway Bridge Replacement and Rehabilitation Program. OMB Circular A-133 requires the grant recipients to provide subrecipients the applicable federal compliance requirements and to monitor the subrecipients' activities to provide reasonable assurance that the subrecipients administer the federal awards in compliance with the federal requirements. The MoDOT provides each recipient of federal funds a Local Public Agency Manual (LPA) which identifies the applicable federal compliance requirements.

- A. Section 6.2.2 of the Cash Management Improvement Act Agreement between the State of Missouri and the United States Department of Treasury states that funds should be requested such that they are received not more than two days prior to disbursement of a payment. The LPA does not address this cash management requirement. Some subrecipients incur the related expenditures prior to claiming reimbursement from MoDOT; however, it appears many subrecipients request and receive grant funds from MoDOT prior to disbursing the monies. Audits of some subrecipients have reported these entities holding funds longer than two days before payment is made to the applicable parties, with some monies being held for a significant amount of time.

The MoDOT must monitor cash drawdowns by its subrecipients to ensure that subrecipients conform substantially to the same standards of timing and amount as apply to the state. In addition, the LPA should be revised to address these requirements.

- B. Sections 8.289 and 8.291, RSMo 1994, provide that when obtaining engineering services for any capital improvement project, at least three highly qualified firms should be considered. The LPA provides that each subrecipient shall submit to MoDOT a statement of procedures which it uses to evaluate and select consultants and that three or more firms be considered before the final selection is made. However, the MoDOT does not ensure that subrecipients submit the required statement of procedures or ensure subrecipients evaluate at least three firms as required. Audits of some subrecipients have reported that the applicable subrecipient had no documentation to indicate at least three engineering firms were considered prior to a contract for engineering services being entered into.

The MoDOT should establish procedures to ensure subrecipients submit the required statement of procedures and evaluate at least three firms.

- C. The MoDOT does not have adequate procedures to ensure findings reported in subrecipient audit reports are properly addressed. Subrecipients have not always been contacted or management decisions issued related to audit findings. OMB Circular A-133 requires subrecipients expending \$300,000 or more in federal awards during the subrecipient's fiscal year to have a single audit performed. The pass-through entity is also

required to issue management decisions on audit findings in those reports within six months of receipt of the report and ensure that the subrecipient takes appropriate and timely corrective action.

WE RECOMMEND the MoDOT:

- A. Inform subrecipients about the cash management requirements and establish procedures to ensure the requirements are met.
- B. Establish procedures to ensure subrecipients submit a statement of procedures used to evaluate and select engineering consultants as required and ensure subrecipients consider at least three firms before procuring such services.
- C. Establish procedures to ensure that management decisions are made on subrecipient audit findings within six months after receipt of the audit reports and that the subrecipient takes appropriate and timely corrective action.

AUDITEE'S RESPONSE

We agree with the auditor's findings. Our Corrective Action Plan includes our planned actions to address these findings.

This report is intended for the information of the management of the Missouri Department of Transportation and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

Follow-Up on State Auditor's Prior Recommendations

MISSOURI DEPARTMENT OF TRANSPORTATION
FOLLOW-UP ON STATE AUDITOR'S PRIOR RECOMMENDATIONS

This section reports follow-up action taken by the Missouri Department of Transportation on recommendations made in the Management Advisory Report (MAR) of our reports issued for the Department of Transportation for the year ended June 30, 1997, and the Special Review of Department of Transportation 15-Year Road and Bridge Program. The prior recommendations which have not been implemented, but are considered significant, have been repeated in the current MAR. Although the remaining unimplemented recommendations have not been repeated, the department should consider implementing these recommendations.

DEPARTMENT OF TRANSPORTATION
YEAR ENDED JUNE 30, 1997

1. MoDOT Expenditures

- A. When comparing the MoDOT's moving expense policy to OA's moving expense policy, the MoDOT policy met or exceeded the OA policy in seven of sixteen areas. The MoDOT also provided reimbursement in nine areas that were not allowed by the OA policy. In addition, some moving expense reimbursements appeared excessive.
- B. The necessity for a new in-house wireless communication system to upgrade cellular phone service within the Support Center building was not adequately justified. In addition, the department paid an invoice (related to the upgrade) for \$13,080 twice.
- C. The Information Systems (IS) Division continued using highly paid computer consultants for various long-term projects. Department personnel indicated they used consultants because their own EDP staff did not have the expertise to develop the needed systems. If some of the work provided by consultants were shifted to employees, the department's cost savings could be substantial.
- D. The MoDOT did not have department-wide policies and procedures and a monitoring system for the assignment and usage of cellular phones.

Recommendation:

The department:

- A. Reevaluate the current moving expense policy, and look for ways to redirect resources currently used on moving to maintenance and construction activities. The department should consider including a per move cap on reimbursements.

- B. Perform an adequate cost/benefit analysis when upgrading phone service. In addition, the department should contact the vendor and obtain reimbursement for the \$13,080 overpayment.
- C. Actively pursue the hiring of qualified EDP staff to develop necessary departmental systems.
- D. Develop department-wide policies and procedures for the use of cellular phones. In addition, cellular phone usage should be monitored to ensure costs are necessary and reasonable.

Status:

- A. Not implemented. See MAR No. 4.
- B. We noted no similar upgrading of the department's phone system during the current audit. In addition, the department received reimbursement for the overpayment in June 1998.
- C. During fiscal year 1998, the IS Division increased the starting salary for its new employees in order to obtain qualified personnel. Although the division hired new employees and filled the maximum number of full-time employee slots, the division continued to experience high turnover. Thus, the department continued to pay significant amounts to computer consultants. Although not repeated in the current MAR, our recommendation remains as stated above.
- D. Not implemented. It does not appear any significant changes have been made at this time; however, a revised policy has been drafted. Although not repeated in the current MAR, our recommendation remains as stated above.

2. MoDOT Accounting System Records and Procedures

- A. The department used a computerized application to convert receipt and disbursement transactions from the department's object code classification system to the system used by the state's accounting system (SAM). Some department codes were not appropriately converted to SAM codes, resulting in some expenditures being improperly classified on statewide accounting records.
- B. The MoDOT had not established a general long term debt account group (GLTDAG) in accordance with generally accepted accounting principles to account for future obligations. In addition, a long-term debt payment was not properly recorded on the state's accounting system.

- C. The Property Damage Receivable and the Allowance for Unknown Damage accounts in the department's manual general ledger appeared to be used inappropriately.
- D. The department did not submit month-end business billings to the Federal Highway Administration on a timely basis. As a result, more than \$320,000 in potential interest revenue was lost in fiscal year 1997 because the deposit of the related reimbursements into the state treasury was delayed.

Recommendation:

The department:

- A. Until the switch to the state's accounting system, ensure expenditures are coded so that they will be properly presented on the SAM system. This could include establishing necessary MoDOT object codes which do not currently exist, ensuring existing MoDOT codes properly convert to SAM object codes, ensuring expenditures are charged to the proper department code, and preparing adjusting entries for material amounts recorded in error on the SAM system.
- B. Establish a GLTDAG in accordance with generally accepted accounting principles for its long-term debts. The department should ensure long-term debt payments are properly recorded on the state's accounting system.
- C. Review the necessity and reasonableness of the Property Damage Receivable and allowance account.
- D. Reduce the time between the expenditure of funds and the request for federal reimbursement.

Status:

- A. Partially implemented. Effective July 1998, the department changed several of its object codes to properly convert to the SAM system. In addition, department personnel indicated the conversion to the new statewide financial accounting system in July 1999 should help resolve other problem areas.
- B. Implemented.
- C. Implemented. The department discontinued recording unknown damage accounts as accounts receivable on the general ledger and eliminated the allowance account. Now only property damage accounts where the responsible parties are known are included in the general ledger's accounts receivable.

- D. Not implemented. During fiscal year 1998, month-end business billings were still not being submitted to the Federal Highway Administration on a timely basis. However, the department is actively involved in OA's implementation of the new statewide financial management software system. Department personnel indicated that once the system is fully implemented, the month-end business billings will be submitted on a timely basis. Although not repeated in the current MAR, our recommendation remains as stated above.

3. General Fixed Asset Records and Procedures

- A. Equipment which was 100 percent federally funded was not included in the general ledger general fixed assets account.
- B. Completed projects included in the department's general ledger account Buildings in Progress (BIP) were not transferred to the Buildings account in a timely manner.
- C. The MoDOT did not determine if its lease-purchase agreements for computer hardware met the criteria for a capital lease.
- D. An annual physical inventory of general fixed assets of various divisions was not taken, although annual inventories were required by department policy.

Recommendation:

- A. Record 100 percent federally funded equipment in the general ledger.
- B. Ensure BIP project costs are transferred to the Buildings account on a timely basis after completion of the project.
- C. Review lease-purchase agreements to determine if the leases are capital leases. The department should record assets acquired under capital lease agreements on the fixed asset records at the inception of the lease.
- D. Ensure annual physical inventories of general fixed assets are taken, in accordance with department policy.

Status:

A,B

&D. Implemented.

- C. Partially implemented. The MoDOT has taken a physical inventory of all lease-purchased computer equipment and plans to record this equipment on the fixed asset records after June 1999.

4. District Office Reviews

- A. An annual physical inventory is taken of maintenance materials, petroleum products, and garage stock inventories. Variances between the physical counts and the inventory records were not adequately investigated.
- B. An annual physical inventory of all tool and equipment items was not always taken at one of the district offices visited during the audit.
- C. Money received by one of the districts visited was not always transmitted to the Support Center in a timely manner.

Recommendation:

The department:

- A. Establish inventory control systems which permit timely investigation of variances/discrepancies between inventory records and physical counts. Adjustments should only be made after differences are investigated, and approval for the adjustment is made by an appropriate individual.
- B. Ensure annual physical inventories of general fixed assets are taken, in accordance with department policy.
- C. Transmit receipts daily or when accumulated receipts exceed \$100.

Status:

We did not conduct similar district office visits during the current audit; however, our recommendations remain as stated above.

5. Staffing Levels

The MoDOT's reengineering effort did not determine the optimal overall level of staffing necessary for the various divisions, or if all existing functions were necessary. While there was an overall decline in full-time employees department-wide in 1997, the number of employees at the Support Center continued to increase. In addition, the Support Center did not provide guidelines for tracking the changes in the make-up of its maintenance sheds and staff, nor accumulate district data to determine what was happening statewide.

Recommendation:

The department determine optimum staffing levels and the necessity of the various functions. The department should track staffing to ensure goals are met.

Status:

Implemented.

6. Davis-Bacon Act Compliance

The MoDOT's system of internal control required wage interviews be conducted by the project's Resident Engineer to ensure the contractor was paying the appropriate prevailing wage, in accordance with the Davis-Bacon Act. Wage interviews were not always conducted in accordance with the department's policy

Recommendation:

The MoDOT implement procedures to ensure the required number of wage interviews are performed to document compliance with the Davis-Bacon Act.

Status:

While we again noted problems in this area during fiscal year 1998, it appears the department took actions to address these problems in early fiscal year 1999.

7. Real Property Dispositions

The MoDOT did not always contact the awarding agency prior to disposing of real property acquired with federal funds as required.

Recommendation:

The MoDOT obtain disposition instructions prior to disposing of real property acquired with federal funds.

Status:

We noted no instances of errors of this type during the current audit period.

SPECIAL REVIEW OF
DEPARTMENT OF TRANSPORTATION
15-YEAR ROAD AND BRIDGE PROGRAM

15-Year (1992-2007) Road and Bridge Program

Due to the lack of adequate cost data, the department was not able to adequately monitor progress on the 15-Year Plan. The department did not track the 15-Year Plan actual construction costs by project and periodically compare the original estimated costs to actual costs incurred. The 15-Year Plan did not consider inflation in its cost estimates and the plan's estimate of funds available for construction was never adequate to meet initial estimates of project costs. Substantial construction funds were used on projects other than 15-Year Plan projects, projects were not adequately prioritized and periodically reevaluated. In addition, estimated and actual revenues and project costs were not adequately reviewed, compared, and evaluated.

Recommendation:

The department better monitor all aspects of the 15-Year Plan. Priorities should be established for the remaining projects and periodically evaluated and modified as necessary. A new estimate of the plan costs for the remaining projects should be developed which considers factors such as inflation, new state and federal regulations, and changes in the planned scope of projects.

Status:

In the department's first Annual Report to the Joint Committee on Legislative Oversight, in November 1998, the department concluded that the initial cost estimates of the 15-Year Plan were substantially understated and underlying assumptions were not correct. The MoDOT indicated that it was not possible, under any reasonable assumptions, for the department to complete the 15-Year Plan with currently anticipated revenues. Thus, the 15-Year Plan was replaced with a 5-Year Plan.

STATISTICAL SECTION

History, Organization, and
Statistical Information

MISSOURI DEPARTMENT OF TRANSPORTATION HISTORY AND ORGANIZATION

The State Highway Department was created in 1913 to act as the state's agent for public roads. The State Highway Commission was created in 1921 with the passage of the Centennial Road Law and was charged with the administration of the network of connecting state highways, including their location, design, construction, and maintenance. Missouri's state highway system currently embraces some 32,319 miles of highway which have been developed and improved since 1917.

The Missouri Department of Transportation was created by the Omnibus State Reorganization Act of 1974. The department's objective was to develop and implement a plan for meeting the total transportation needs of the people of the state.

The Missouri-St. Louis Metropolitan Airport Authority, the Bi-State Development Agency, the Kansas City Area Transportation Authority, and the four bridge commissions were assigned to the Department of Transportation by the reorganization act. The Missouri Rail Facility Improvement Authority was established pursuant to Section 620.954, RSMo, and was attached to the Highway and Transportation Commission for reporting and budgeting purposes, but is otherwise not subject to the supervision and control of the Commission. Effective July 1, 1985, Section 620.953, RSMo, transferred all powers, duties, and functions of the Missouri Rail Facility Improvement Authority to the Department of Economic Development, Division of Community and Economic Development.

On November 6, 1979, an amendment to the Missouri Constitution was passed by the state's voters. It merged the Department of Transportation and the State Highway Department to form the Department of Highway and Transportation. This constitutional amendment gave a newly created Highway and Transportation Commission the authority over all state transportation programs and facilities.

In August 1996, Section 226.005, RSMo, changed the name of the department to the Department of Transportation.

The department is divided into a support center and ten districts. The Support Center, which oversees the operation and administration of the department, is separated into administrative and engineering divisions and is located in Jefferson City. The districts are ten separate geographical areas with a district engineer in charge of each district to administer the work within the defined area.

The Multimodal Operations Division is responsible for developing and promoting appropriate use of navigable waterways, including the development of ports. It is also to develop, or assist in developing, public mass transportation systems in rural and urban areas, with attention to elderly and handicapped users. In addition, it is responsible for developing aviation and rail facilities and services.

At June 30, 1998, the department employed 6,338 individuals.

The Highway and Transportation Commission is a bipartisan body of six members appointed by the

governor with the consent of the Senate for a term of six years. Not more than three members can belong to the same political party. At June 30, 1998, the six members were:

Member	City	Term Expires	
S. Lee Kling, Chairman	St. Louis	October 13, 2001	(1)
Robert E. Jones, Vice Chairman	Des Peres	December 1, 1999	
Edward D. Douglas, Member	Chillicothe	December 1, 2001	
Ollie W. Gates, Member	Kansas City	December 1, 2003	
William E. Gladden, Member	Houston	October 13, 2001	
W.L. "Barry" Orscheln, Member	Moberly	December 1, 2003	

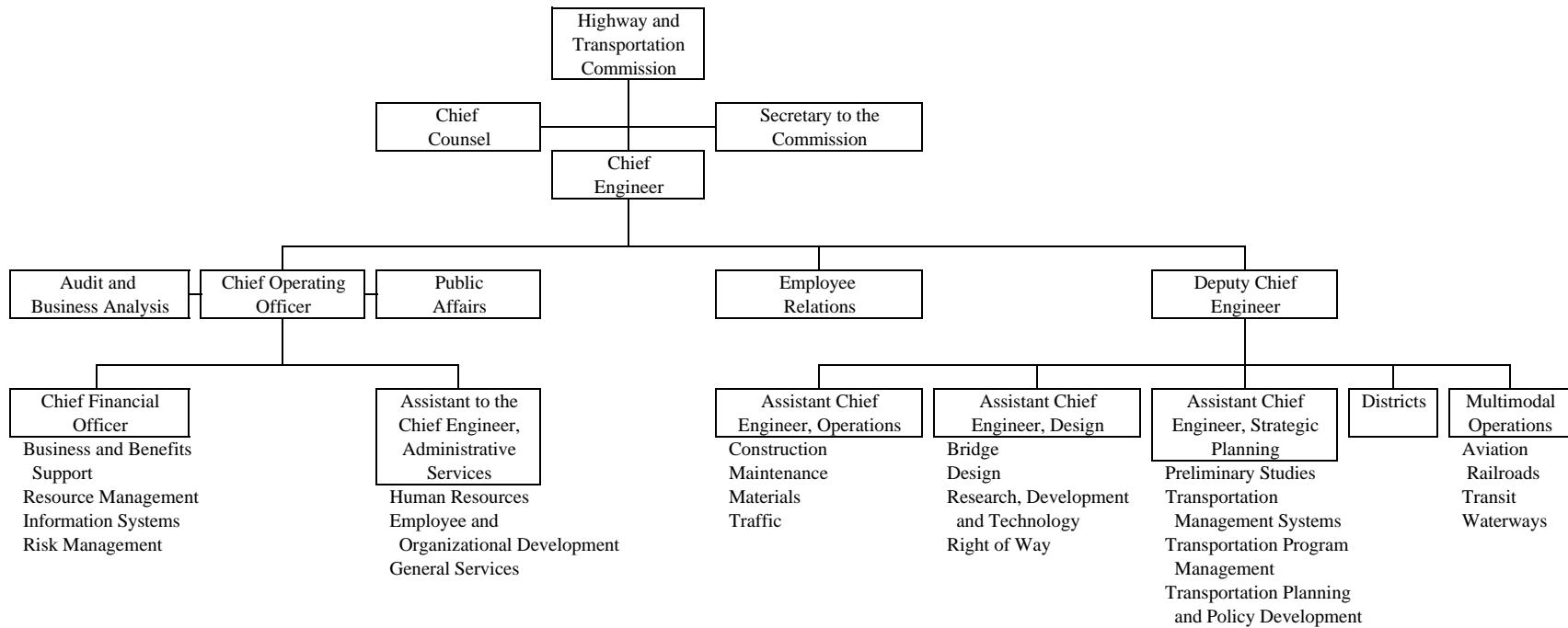
(1) Elected as chairman on January 9, 1998

Also, serving by direct appointment of the Commission at June 30, 1998, were Joseph Mickes, Chief Engineer; Richard L. Tiemeyer, Chief Counsel; and Mari Ann Winters, Commission Secretary.

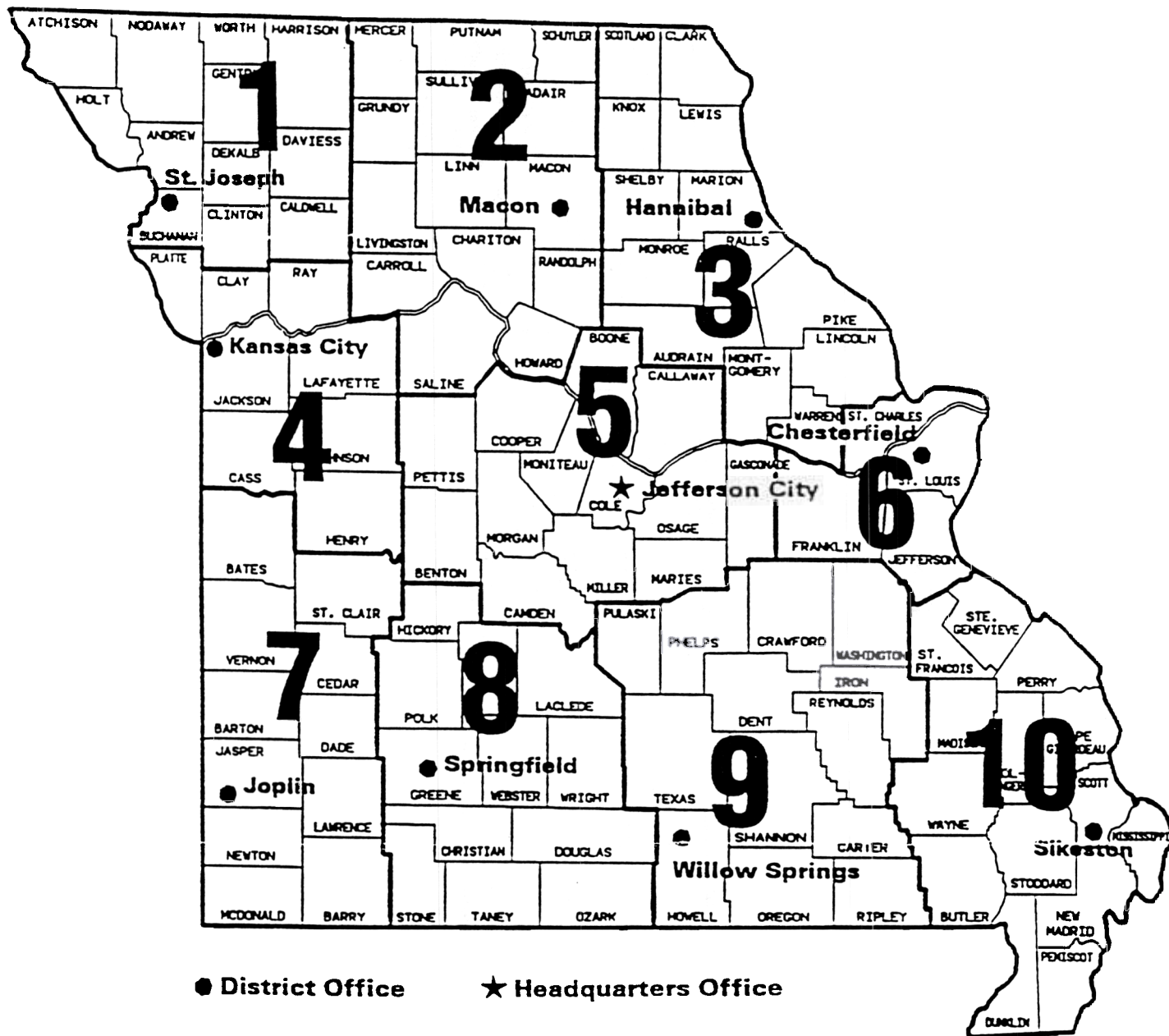
In 1998, Section 226.040, RSMo, was revised and authorizes the Highway and Transportation Commission to appoint a chief executive officer (director) for the department. Pursuant to this legislative change, in August 1998, the Highway and Transportation Commission appointed Joseph Mickes, as Director. In February 1999, Henry Hungerbeeler replaced Mr. Mickes as Director.

The Director appoints all major administrative chiefs and division heads with the approval of the Commission.

MISSOURI DEPARTMENT OF TRANSPORTATION
 ORGANIZATION CHART
 JUNE 30, 1998



MISSOURI DEPARTMENT OF TRANSPORTATION DISTRICT OUTLINE MAP



MISSOURI DEPARTMENT OF TRANSPORTATION
MILES OF ROAD AND NUMBER OF EMPLOYEES BY DISTRICT

District	Number of Miles at December 31, 1997				Number of Employees*	
	Interstate (1)	Primary (2)	Supplementary (3)	Total	June 30, 1998	June 30, 1997
No. 1 - St. Joseph	189	468	2,463	3,120	414	434
No. 2 - Macon	24	732	2,988	3,744	441	440
No. 3 - Hannibal	39	725	2,561	3,325	429	426
No. 4 - Kansas City	201	559	1,687	2,447	729	728
No. 5 - Jefferson City	78	819	2,723	3,620	486	503
No. 6 - Chesterfield	224	215	1,016	1,455	840	848
No. 7 - Joplin	60	726	2,556	3,342	441	443
No. 8 - Springfield	86	783	2,796	3,665	500	515
No. 9 - Willow Spring	79	1,048	2,613	3,740	401	411
No. 10 - Sikeston	198	742	2,921	3,861	507	514
Support Center	0	0	0	0	1,150	1,165
	1,178	6,817	24,324	32,319	6,338	6,427

* Does not include part-time seasonal employees.

(1) Interstate highways, such as I-70 and I-44, are a national system designed to promote interstate commerce and provide defense access needs.

(2) Primary highways extend into each county of the state and link the state's population centers. This system also provides both interstate and intrastate travel. Primary highways are generally U.S. routes and major state routes such as U.S. 54, MO 37, and MO 5.

(3) Supplementary highways collect traffic and funnel it to the primary system. They also provide a high level of service to adjoining property. They are commonly known as "farm-to-market" roads. Supplementary highways are generally lettered state routes such as A, B, C, and D.

The state system accounts for 31 percent of total roads and streets in the state. Vehicle miles of travel on the state highway system have increased to about 44 billion miles per year.

* * * * *